

November 08, 2012

Rating	Previous Reco
Buy	Accumulate
CMP	Target Price
Rs 114	Rs148
EPS Chg FY13E/FY14E (%)	-12/NA
Target Price change (%)	37
Nifty	5,739
Sensex	18,846

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	0	10	11
Rel. to Nifty	3	-6	-4	3

Source: Bloomberg

Relative price chart



Source: Bloomberg

Stock Details

Sector	Paper
Bloomberg	TNNP IB
Equity Capital (Rs mn)	692
Face Value(Rs)	10
No of shares o/s (mn)	69
52 Week H/L	122/ 75
Market Cap (Rs bn/USD mn)	8/ 144
Daily Avg Volume (No of sh)	77,688
Daily Avg Turnover (US\$mn)	0.2

Shareholding Pattern (%)

	Sep12	Jun12	Mar12
Promoters	35.3	35.3	35.3
FII/NRI	5.2	4.9	4.4
Institutions	33.2	35.1	35.4
Private Corp	7.1	6.9	6.6
Public	19.2	17.9	18.4

Source: Capitaline

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- Q2FY13 results stood above est driven by higher topline. TNPL reported revenues of Rs 4.6 bn, 48% yoy, EBITDA of Rs 999 mn, 14% yoy & PAT of Rs 213 mn, 75% yoy
- Co is gradually gaining mkt share through increased sales vols. Inventories are likely to drop in subsequent quarters & margins would improve driven by higher pricing power
- Revise FY13 est downward by 12% to Rs 13.7 due to near-term pressure on margins and higher inventory. Introduce FY14 est at Rs 18.5
- Upgrade stock to Buy from Accumulate as earnings visibility has improved post the completion of capex. Revise target to Rs 148 (previous Rs 108) based on 1x FY13 BV

Revenues ahead of est driven by special order of Rs 1bn from Govt. of TN

TNPL reported revenues of Rs 4.6bn, 48% yoy (against est of Rs 3.5bn) driven by a special order of notebooks worth Rs 770mn included in current quarter revenues. Sales volumes increased by 27% to 81,000mt mainly on account of expansion in capacity while average realisations remained flat at Rs 45,100/mt.

Inventory increased due to higher production, to decline subsequently

Post the completion of its capex, TNPL has increased capacity from 245 thousand mt to 400 thousand mt and it was initially facing some problem in sales which has resulted in higher inventory and working capital. By the end of Q2FY13, finished good inventories increased 30,000mt. However, we expect inventory to decline in subsequent quarters as demand environment improves from December onwards on back of increase in demand from calendars, diaries etc.

PAT growth of 75% yoy, on low base

TNPL reported EBITDA of Rs 999mn, 14% yoy (est of Rs 970mn) with margins of 21.5% (est of 27.6%). EBITDA included Rs 50mn of profit recorded from the sale of notebooks to Govt. of Tamil Nadu. Excl. the special order, EBITDA stood at Rs 949mn, 8% yoy with EBITDA margin of 24.5%. Reported PBT for the quarter stood at Rs 304mn, 170% yoy. TNPL reported PAT of Rs 213mn, 75% yoy with EPS of Rs 3.1. For H1FY13, TNPL has reported PAT of Rs 325mn with EPS of Rs 4.7.

Earnings visibility improves post completion of capex, Upgrade to BUY

TNPL has largely completed its capex and stabilized its operations. Company is slowly gaining market share to sell higher production achieved through capex. We expect that inventories are likely to come down and margins will improve going forward driven by higher pricing power. We are introducing our FY14 est and revise our price target to Rs 148 (based on 1x FY13 BV). We expect company to report an EPS of Rs 18.5 in FY14 and with improved earnings visibility, upgrade the stock from Accumulate to BUY.

Financial Snapshot (Standalone)

(Rsmn)

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/EBITDA	P/BV
Mar										
FY11A	12,225	3,301	27.0	1,289	18.6	19.4	15.0	6.1	6.9	0.9
FY12A	15,303	3,269	21.4	278	4.0	-78.4	2.9	28.3	6.7	0.8
FY13E	17,327	4,316	24.9	951	13.7	242.2	9.5	8.3	5.0	0.8
FY14E	17,100	4,931	28.8	1,282	18.5	34.8	12.0	6.1	4.3	0.7

Exhibit 1: Quarterly Results Summary

Rs mn	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YoY (%)	QoQ (%)	YTD FY13	YTD FY12	YoY (%)
Revenue	3,133	3,098	5,632	3,456	4,646	49.9	34.4	8,102	6,573	23.3
Expenditure	2,253	2,506	4,731	2,564	3,647	45.5	42.3	6,210	4,797	29.5
as % of sales	71.9	80.9	84.0	74.2	78.5			76.7	73.0	
Consumption of RM	253	530	2,443	513	1,794	238.4	249.4	2,307	671	244.1
as % of sales	8.1	17.1	43.4	14.9	38.6			28.5	10.2	
Power & Fuel	1,031	914	1,382	1,090	900	(1.5)	(17.4)	1,990	2,198	(9.5)
as % of sales	32.9	29.5	24.5	31.5	19.4			24.6	33.4	
Employee Cost	292	338	316	340	346	2.4	1.8	686	608	12.7
as % of sales	9.3	10.9	5.6	9.8	7.4			8.5	9.3	
Other expenditure	677	724	591	620	607	(16.2)	(2.1)	1,228	1,320	(7.0)
as % of sales	21.6	23.4	10.5	17.9	13.1			15.2	20.1	
EBITDA	880	592	900	893	999	68.6	11.8	1,892	1,776	6.5
Depreciation	413	451	423	424	439	(2.6)	3.7	863	817	5.7
EBIT	467	142	477	469	559	295.1	19.2	1,028	960	7.1
Other Income	2	-	82	15	24		61.6	38	5	712.8
Interest	356	394	338	334	279	(29.2)	(16.5)	612	681	(10.1)
PBT	113	(252)	221	150	304	(220.8)	102.7	455	284	60.2
Total Tax	(9)	(76)	16	39	92	(1,129.2)	137.9	130	34	286.1
Adjusted PAT	122	(176)	205	112	213	(220.6)	90.5	325	250	29.8
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	122	(176)	205	112	213	(220.6)	90.5	325	250	29.8
Extra ordinary items	0	812	0	0	0			0	0	
Reported PAT	122	635	205	112	213	(66.5)	90.5	325	250	29.9
Reported EPS	1.8	9.2	2.9	1.6	3.1	(66.5)	90.5	4.7	3.6	29.8

Margins (%)					(bps)	(bps)			(bps)	
EBIDTA	28.1	19.1	16.0	25.8	21.5	(658)	(434)	23.3	27.0	(13.6)
EBIT	14.9	4.6	8.5	13.6	12.0	(286)	(153)	12.7	14.6	(13.1)
EBT	3.5	(8.1)	2.5	3.9	6.0	251	212	5.1	4.2	21.1
PAT	3.9	(5.7)	3.6	3.2	4.6	69	135	4.0	3.8	5.3
Effective Tax rate	(7.9)	30.0	7.5	25.6	30.1	3,798	446	28.6	11.9	140.9

Source: Company, Emkay Research

Downgrade FY13 est by 12% to Rs 13.7 /Introduce FY14 est at Rs 18.5

We have downgraded our FY13 est by 12% to Rs 13.7 to reflect near-term pressure on margins. Revised EBITDA margin assumption stands at 24.9% (previous 28.3%). We have introduced FY14 est at Rs 18.5

Exhibit 2: Revision in estimates

Rs mn	FY13E			FY14E	
	Old Estimates	New Estimates	% Change	Introducing Estimates	% yoy
Net sales	17600	17,327	-1.6%	17,100	-1.3%
EBITDA	4,988	4,316	-13.5%	4,931	14.2%
EBITDA %	28.3%	24.9%	-343	28.8%	393
PAT	1084	951	-12.3%	1282	34.8%
EPS	15.6	13.7	-12.1%	18.5	34.8%

Source: Emkay Research

Exhibit 3: Segmental Results

Rs mn	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	YoY (%)	QoQ (%)	YTDFY13	YTDFY12	YoY (%)
Revenues										
Paper	2943	2980	5489	3243	4434	48.8	36.7	7,677	6,229	23.2
Energy	699	561	592	650	765	36.4	17.7	1,414	1,287	9.9
Total	3642	3541	6081	3893	5198	46.8	33.5	9,091	7,515	21.0
Segment Results										
Paper	450	187	618	483	577	207.7	19.3	1,060	945	12.2
Energy	51	-15	-31	25	32	(315.4)	NM	57	85	(33.0)
Total	500	173	587	508	609	252.9	19.8	1,117	1,030	8.4
EBIT %										
Paper	15.3	6.3	11.3	14.9	13.0	672	(190)	13.8	15.2	(136)
Energy	7.2	-2.7	-5.2	3.8	4.2	685	36	4.0	6.6	(258)
Total	13.7	4.9	9.6	13.1	11.7	684	(134)	12.3	13.7	(142)

Source: Company, Emkay Research

Key Financials (Standalone)

Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Net Sales	12,225	15,303	17,327	17,100
Growth (%)	15.7	25.2	13.2	-1.3
Expenditure	8,925	12,034	13,011	12,169
Raw Materials	2,637	5,016	5,423	5,072
Employee Cost	1,127	1,262	1,364	1,276
Other Exp	5,161	5,757	6,224	5,821
EBITDA	3,301	3,269	4,316	4,931
Growth (%)	12.0	-1.0	32.0	14.2
EBITDA margin (%)	27.0	21.4	24.9	28.8
Depreciation	1,234	1,691	1,823	2,000
EBIT	2,067	1,578	2,493	2,931
EBIT margin (%)	16.9	10.3	14.4	17.1
Other Income	25	87	68	60
Interest expenses	442	1,413	1,212	1,160
PBT	1,650	252	1,349	1,831
Tax	361	-26	399	549
Effective tax rate (%)	21.9	-10.1	29.5	30.0
Adjusted PAT	1,289	278	951	1,282
Growth (%)	19.4	-78.4	242.2	34.8
Net Margin (%)	10.5	1.8	5.5	7.5
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	1,289	278	951	1,282
E/O items	201	812	0	0
Reported PAT	1,490	1,089	951	1,282
PAT after MI	1,289	278	951	1,282
Growth (%)	19.4	-78.4	242.2	34.8

Cash Flow

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
PBT (Ex-Other income)	1,625	166	1,281	1,771
Depreciation	1,234	1,691	1,823	2,000
Interest Provided	442	1,413	1,212	1,160
Other Non-Cash items	0	0	0	0
Chg in working cap	-225	1,828	583	163
Tax paid	361	-26	399	549
Operating Cashflow	2,819	5,837	4,569	4,605
Capital expenditure	-3,473	-3,453	-2,500	-2,500
Free Cash Flow	-654	2,384	2,069	2,105
Other income	25	87	68	60
Investments	103	0	0	0
Investing Cashflow	-3,334	-3,406	-2,500	-2,500
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	1,252	-539	0	0
Interest Paid	-442	-1,413	-1,212	-1,160
Dividend paid (incl tax)	365	406	406	406
Income from investments	0	0	0	0
Others	-731	-812	-812	-811
Financing Cashflow	444	-2,357	-1,618	-1,565
Net chg in cash	-71	75	452	540
Opening cash position	194	122	197	648
Closing cash position	122	197	648	1,188

Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Equity share capital	694	694	694	694
Reserves & surplus	8,464	9,013	9,558	10,434
Net worth	9,158	9,707	10,252	11,128
Minority Interest	0	0	0	0
Secured Loans	11,692	8,508	8,508	8,508
Unsecured Loans	3,189	5,834	5,834	5,834
Loan Funds	14,881	14,342	14,342	14,342
Net deferred tax liability	2,496	3,441	3,441	3,441
Total Liabilities	26,535	27,490	28,035	28,911
Gross Block	33,645	35,855	38,355	40,855
Less: Depreciation	11,706	13,396	15,219	17,219
Net block	21,939	22,459	23,136	23,636
Capital work in progress	1,437	2,680	2,680	2,680
Investment	11	11	11	11
Current Assets	7,366	10,398	10,544	10,968
Inventories	2,050	3,277	3,027	2,998
Sundry debtors	2,059	3,639	3,227	3,186
Cash & bank balance	122	197	648	1,187
Loans & advances	3,135	3,109	3,465	3,420
Other current assets	0	177	177	177
Current lia & Prov	4,218	8,059	8,336	8,384
Current liabilities	2,949	7,516	7,794	7,842
Provisions	1,269	543	543	543
Net current assets	3,148	2,340	2,208	2,584
Misc. exp	0	0	0	0
Total Assets	26,535	27,490	28,035	28,911

Key Ratios

Y/E Mar	FY11A	FY12A	FY13E	FY14E
Profitability (%)				
EBITDA Margin	27.0	21.4	24.9	28.8
Net Margin	10.5	1.8	5.5	7.5
ROCE	8.3	6.2	9.2	10.5
ROE	15.0	2.9	9.5	12.0
RoIC	10.4	6.4	10.1	11.8
Per Share Data (Rs)				
EPS	18.6	4.0	13.7	18.5
CEPS	36.4	28.4	40.0	47.3
BVPS	132.0	139.9	147.8	160.4
DPS	4.5	5.0	5.0	5.0
Valuations (x)				
PER	6.1	28.3	8.3	6.1
P/CEPS	3.1	4.0	2.8	2.4
P/BV	0.9	0.8	0.8	0.7
EV / Sales	1.9	1.4	1.2	1.2
EV / EBITDA	6.9	6.7	5.0	4.3
Dividend Yield (%)	4.0	4.4	4.4	4.4
Gearing Ratio (x)				
Net Debt/ Equity	1.6	1.5	1.3	1.2
Net Debt/EBITDA	4.5	4.3	3.2	2.7
Working Cap Cycle (days)	90.3	51.1	32.8	29.8

Recommendation History: Tamilnadu Newsprint – TNNPL IN

Date	Reports	Reco	CMP	Target
17/08/2012	Tamilnadu Newsprint Q1FY13 Result Update	Accumulate	113	108
30/05/2012	Tamilnadu Newsprint Q4FY12 Result Update	Accumulate	99	108
06/02/2012	Tamilnadu Newsprint Q3FY12 Result Update	Accumulate	93	108
17/11/2011	Tamilnadu Newsprint Q2FY12 Result Update	Accumulate	90	108

Recent Research Reports

Date	Reports	Reco	CMP	Target
01/11/2012	Rashtriya Chemicals Company Update	Not Rated	54	NA
31/10/2012	Deepak Fertilisers Q2FY13 Result Update	Buy	131	172
30/10/2012	Ballarpur Industries Q1FY13 Result Update	Accumulate	22	27
23/10/2012	United Phosphorus Q2FY13 Result Update	Accumulate	118	172

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